West Virginia State Treasurer's Office
John D. Perdue, Treasurer

2008

DEBT CAPACITY REPORT

Table of Contents

Tables contained in the report

Charts contained in the report

Introduction

The Treasurer must submit an annual Debt Capacity Report to the Governor and the Legislature. According to West Virginia Code §12-6B-4, the report should consider:

> The amount of net tax supported debt that, during the next fiscal year and annually for the following ten fiscal years, which will be outstanding, and has been authorized but not yet issued.
>
> Projected debt service requirements during the next fiscal year and annually for the following ten fiscal years based upon existing outstanding debt, previously authorized but unissued debt, and projected bond authorizations.
>
> Any information available from the budget section of the Department of Revenue in connection with anticipated capital expenditures projected for the next five fiscal years.
>
> The criteria that recognized bond rating agencies use to judge the quality of state bonds.
>
> Any other factor that the Division finds as relevant to the ability of the state to meet its projected debt service requirements for the next fiscal year, the ability of the state to meet its projected debt service requirement for the next five fiscal years, and any other factor affecting the marketability of the state's bonds.
>
> The effect of authorizations of new tax-supported debt on each of the above considerations.

West Virginia must continue to strive for economic development through updating its infrastructure and education systems which will help the state remain competitive for attracting jobs. As these improvements are made then other byproducts naturally occur, such as a positive population trend and a shift toward attracting and keeping young people in West Virginia. Through careful management of the state's resources and its ability and capacity to issue debt, West Virginia can and should expect to see economic growth. It is the goal of this report to be a tool in that growth. The Treasurer's Office would like to thank the various state agencies that provided information in the preparation of this report such as the Department of Revenue and the Division of Finance of the Department of Administration.

A recap of 2007 & a look at 2008

The municipal bond market saw a record year in 2007. According to data from Thompson Financial, state and local governments sold $429 billion of bonds during calendar year 2007. The largest volume of issuance came from the State of California which sold $12.2 billion. Most of that volume came from California's 2006 general election which authorized more than $43 billion of new bonding authority.

Although California topped the list as the largest volume in 2007, the largest bond issue was sold by the Buckeye Tobacco Settlement Finance Authority. This Ohio authority sold the nation's largest tobacco deal to date, $5.5 billion. Ohio decided to sell off its future tobacco settlement payments for the next 24 years in exchange for cash up front. Ohio will use the cash to accelerate its school building program and to expand its homestead tax exemption.

The trend of record volume in municipal bond issuance also carried into West Virginia. The State of West Virginia issued approximately $1.96 billion of state level municipal bonds during calendar year 2007 which is an 82.3% increase from the $1.07 billion issued during calendar year 2006. And, like Ohio, the largest issue for 2007 was a tobacco bond deal. The West Virginia Tobacco Settlement Finance Authority issued $911 million of tobacco bonds and the state received a onetime payment of $807.5 million which was used to help shore up one of the most underfunded public retirement systems in the nation, the West Virginia Teachers' Retirement System. The top five West Virginia issuers of state level municipal bonds during calendar year 2007 were (in order) the Tobacco Settlement Finance Authority, the Economic Development Authority, the School Building Authority, the Housing Development Fund and the Infrastructure & Jobs Development Council.

Although 2007 was a record setting year as far as the volume of bonds issued in West Virginia, the net tax supported debt of the state, which is perhaps the most important measure of debt, actually decreased during the year. The following chart gives a historical perspective of the State's net tax supported debt:

Fiscal Year	Net Tax Supported Debt
1997	$834 million
1998	$878 million
1999	$1.25 billion
2000	$1.34 billion
2001	$1.39 billion
2002	$1.49 billion
2003	$1.49 billion
2004	$1.62 billion
2005	$1.75 billion
2006	$1.68 billion
2007	$1.60 billion

This $80 million decrease is due, in large part, to the fact that West Virginia has no outstanding authorization for General Obligation (GO) debt at the present time. The current GO debt is $683.7 million. Other reasons include current and advanced refundings and short amortization periods of Lottery revenue bonds.

Perhaps the biggest headlines to hit the financial markets during 2007 dealt with the subprime mortgage financial crisis. This crisis began when the housing market “bubble” burst in late 2006 and early 2007. These subprime mortgages were made to borrowers, in large part, who did not qualify for market interest rates because of problems with their credit history or their inability to prove that they had enough income to make the monthly mortgage payment. So, mortgage packages were tailored to appeal to “subprime” borrowers such as “interest only” repayment terms or low initial rates which would then reset to a higher floating rate. According to Federal Reserve Chairman Ben Bernanke, 16% of subprime loans with adjustable rate mortgages (ARMs) were 90-days into default or in foreclosure proceedings by October 2007, roughly triple the rate of 2005. According to the Mortgage Bankers Association, these ARMs only represent 6.8% of the loans outstanding in the United States, yet they represent 43% of the foreclosures during the third quarter of 2007.

There are, of course, many other factors and other economic analyses which could be explored on the subprime mortgage crisis of 2007, but what effect does this have on the ability of West Virginia to issue bonds? Well, the subprime mortgage crisis had a ripple effect in the financial markets. Approximately seven financial/mortgage groups have filed for bankruptcy and some of the world’s largest financial institutions have had to recognize losses or writedowns exceeding $80 billion. Some of the financial institutions which have or may have had some exposure to this downturn also provide bond insurance to municipal issuers. If a bond insurer is downgraded because of their exposure to the downturn in the housing market then the bonds that they insure have the potential to be downgraded or at least put on a “negative outlook.” For example, on December 19, 2007, Standard & Poor’s downgraded a bond insurer which led to a “negative outlook” for more than 121,000 municipal bonds. As of the date of this report, there has been no indication that any of West Virginia’s bonds have been directly affected by this scrutiny of the rating agencies. According to Mark Muchow, Deputy Cabinet Secretary of the West Virginia Department of Revenue, the direct effect of the woes in the housing market on West Virginia’s state budget could be up to 40% lower sales and use tax revenue growth by up to one full percentage point or slightly more than $11 million per year. However, a slower housing market also translates into slower housing value appreciation over time which leads to fewer resident complaints about property valuation increases. And, in this case, we have actually seen a decrease in the market value of homes in some areas.

What's ahead?
According to a report released jointly by the National Governors Association and the National Association of State Budget Officers, most states are expected to remain fiscally strong in 2008; however, growth will be more modest and some budgetary shortfalls could occur as some states feel the impact of the housing market meltdown and reduced tax collections. "The Fiscal Survey of States," also noted that states will be seeing the first decrease in their ending budgetary balances in three years. The total year-end balance for the states was $62.7 billion in 2007 and is expected to be approximately $47 billion in 2008, the lowest balance since 2005. But spending for the states is projected to grow only 4.7%, approximately half of the previous year and below the 30-year growth average. The report can be accessed on the internet at http://www.nga.org/Files/pdf/FSS0712.PDF.

According to Steven Permut, a senior vice president at American Century Investments, the municipal bond market should expect more volatility but it should eventually find solid footing in 2008. Some market experts are expecting a decline in overall issuance during 2008 while others expect the volume to be as much, if not more, than the records set in 2007. However, everyone seems to echo the same sentiment – it depends on interest rates. Of course, interest rates are not the only factor when determining the capacity to incur debt. The remainder of this report examines some key ratios and where West Virginia ranks in relation to other similarly rated states. This comparison is simply one tool to help West Virginia's leaders determine how much (if any) debt should or can be incurred within the year.

Debt Capacity

The legislative purpose of this report is stated clearly in West Virginia Code §12-6B-1, which is as follows:

> Determine the amount of net tax supported debt outstanding;
>
> Calculate key ratios that are commonly used to examine debt; and
>
> Make recommendations which will attempt to keep the state within an average to low range of nationally recognized debt limits.

<u>Purpose I. Determine the amount of net tax supported debt outstanding</u>

The West Virginia State Treasurer's Office Division of Debt Management has been tracking West Virginia's net tax supported debt for more than 10 years. The calculation of net tax supported debt includes General Obligation Bonds, Revenue Bonds of the School Building Authority which rely on an appropriation from the General Revenue Fund for debt service, Lottery Revenue Bonds and lease obligations of various state agencies.

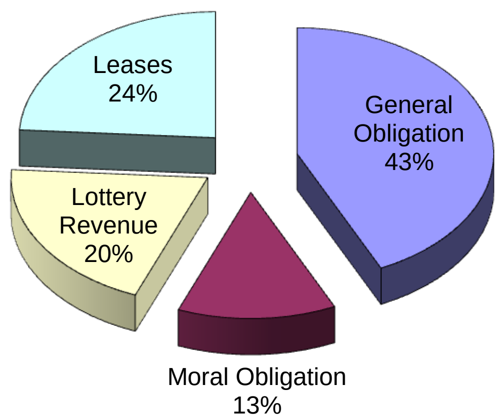
The net tax supported debt of the state at June 30, 2007 is outlined in the following table:

Table 1
West Virginia Net Tax Supported Debt Outstanding
June 30, 2007
(net of escrow & debt service reserve funds)

Type of Debt		Principal Outstanding June 30, 2007 (rounded to the nearest thousand)	Percentage of debt outstanding
General Obligation Bonds	State Road Bonds	$ 429,845,000	43%
	Infrastructure Bonds	253,919,000	
Moral Obligation Bonds	School Building Authority	208,454,000	13%
Lottery Revenue Bonds	Economic Development Authority	202,575,000	20%
	School Building Authority	97,520,000	
	State Building Commission	31,075,000	
Lease Obligations *		382,615,000	24%
Net Tax Supported Debt		$ 1,606,003,000	

* - Taken from the June 30, 2007 Debt Position Report.

Chart 1
West Virginia Net Tax Supported Debt Outstanding
by Type of Debt
June 30, 2007



Calculations of the net tax supported debt and debt service of the State of West Virginia for fiscal years 2002 through 2018 are contained in Tables 2 and 3 (pages 8-11). Fiscal years 2002 through 2006 are included to show the historical perspective of the actual debt issued and the debt service requirements for these obligations. The current and next ten fiscal years, 2008 through 2018, are included to show expected debt levels as existing obligations mature.

The state has issued approximately $109.1 million in Special Obligation Notes (GARVEE bonds). The bonds were issued for projects relating to US Route 35 in Putnam and Mason Counties and will be repaid from pledged revenues from the Federal Highway Administration (FHWA). Some rating agencies include GARVEE bonds as part of the calculation of net tax supported debt and others do not. For purposes of this report, the GARVEE bonds have been **excluded** in the projected debt calculations included in Tables 2 and 3 (pages 8-11); however, we will continue to monitor these obligations to insure that they do not have a direct impact on the net tax supported debt of the state.

Several agencies had revenue bonds outstanding at June 30, 2007 such as the West Virginia Higher Education Policy Commission, various state colleges and universities, and the West Virginia Regional Jail and Correctional Facilities Authority. These bonds are self-supporting from revenues of the projects they financed; therefore, they are **excluded** from the calculation of net tax supported debt. The bonds of the West Virginia Tobacco Settlement Finance Authority have also been **excluded** since the bonds are paid directly from tobacco settlement funds and not from funds generated by the state.

Although certain bonds of the West Virginia Water Development Authority, the West Virginia Solid Waste Management Authority, the West Virginia Solid Waste Landfill Closure Assistance Program, and the West Virginia Housing Development Fund are considered moral obligations of the state, they are currently self-supporting and are **excluded** from the calculation of net tax supported debt.

As of the publication of this report, the West Virginia State Treasurer's Office has not received any notification concerning debt to be issued which would impact the net tax supported debt of the state.

Revenue information included in Tables 2 & 3 was compiled and provided by the West Virginia Department of Revenue and is included in Appendix B.

Table 2. NET TAX SUPPORTED DEBT OUTSTANDING FOR FISCAL YEARS 2002 - 2018

	6/30/2002 FY02	6/30/2003 FY03	6/30/2004 FY04	6/30/2005 FY05	6/30/2006 FY06	6/30/2007 FY07
General Obligation						
Better Highways of 1973	18,660,000	10,815,000	5,090,000	1,480,000	-	-
Safe Roads of 1996 (net)	520,880,000	506,685,000	489,340,000	466,435,000	447,995,000	429,845,000
Better Schools of 1972	4,000,000	2,000,000	-	-	-	-
Infrastructure of 1994 (net)	285,663,910	281,678,910	277,448,910	273,013,910	265,521,492	253,919,156
Total General Obligation	829,203,910	801,178,910	771,878,910	740,928,910	713,516,492	683,764,156
Moral Obligations						
Economic Development Authority - Lottery	-	-	249,895,000	236,005,000	228,840,000	221,565,000
School Building Authority	274,645,000	267,470,000	259,010,000	250,160,000	241,920,000	231,475,000
School Building Authority - Lottery	48,155,000	32,970,000	16,940,000	135,805,000	124,015,000	111,700,000
State Building Commission - Lottery	68,915,000	62,545,000	55,855,000	48,830,000	41,455,000	33,675,000
Total Moral Obligations	391,715,000	362,985,000	581,700,000	670,800,000	636,230,000	598,415,000
Leases						
Leases	277,219,000	325,345,749	319,532,942	378,233,000	378,621,000	382,615,000
Total Leases	277,219,000	325,345,749	319,532,942	378,233,000	378,621,000	382,615,000
Deductions for debt service reserve accounts						
Economic Development Authority - Lottery	-	-	(18,990,559)	(18,990,000)	(18,990,000)	(18,990,000)
School Building Authority	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,021,000)
School Building Authority - Lottery	-	-	-	(14,155,000)	(14,155,000)	(14,180,000)
State Building Commission - Lottery	(3,268,041)	(3,268,041)	(3,428,041)	(3,428,041)	(2,620,000)	(2,600,000)
Net Tax Supported Debt Outstanding	1,471,849,068	1,463,220,817	1,627,672,451	1,730,368,068	1,669,581,691	1,606,003,156
Assessed value (in thousands)	51,433,353	53,338,895	54,530,114	58,090,753	63,510,844	70,726,548
Net tax supported debt as a percentage of assessed value	2.86%	2.74%	2.98%	2.98%	2.63%	2.27%
Income (in thousands)	43,311,515	43,841,262	45,731,471	47,954,838	51,038,834	53,200,000
Net tax supported debt as a percentage of personal income	3.40%	3.34%	3.56%	3.61%	3.27%	3.02%
Population	1,800,090	1,803,223	1,804,618	1,805,626	1,808,699	1,812,035
Net tax supported debt per capita	817.65	811.45	901.95	958.32	923.08	886.30

Income and Assessed value information and projections provided by the WV Budget Office

Population information and projections provided by the U.S. Census Bureau

6/30/2008 FY08	6/30/2009 FY09	6/30/2010 FY10	6/30/2011 FY11	6/30/2012 FY12	6/30/2013 FY13	6/30/2014 FY14	6/30/2015 FY15	6/30/2016 FY16	6/30/2017 FY17	6/30/2018 FY18
-	-	-	-	-	-	-	-	-	-	-
401,190,000	371,105,000	339,515,000	306,350,000	271,485,000	246,255,000	221,415,000	195,325,000	167,930,000	152,630,000	136,565,000
-	-	-	-	-	-	-	-	-	-	-
243,176,320	232,339,607	221,415,041	210,353,971	199,092,386	187,699,730	176,065,493	164,128,538	151,834,132	139,225,959	126,170,144
644,366,320	603,444,607	560,930,041	516,703,971	470,577,386	433,954,730	397,480,493	359,453,538	319,764,132	291,855,959	262,735,144
214,125,000	206,480,000	198,590,000	190,415,000	181,920,000	173,070,000	163,830,000	154,170,000	144,065,000	133,415,000	122,195,000
215,675,000	214,125,000	201,045,000	187,380,000	173,090,000	158,160,000	142,535,000	126,190,000	109,075,000	91,040,000	72,105,000
99,040,000	85,650,000	71,715,000	57,130,000	41,790,000	25,615,000	8,670,000	-	-	-	-
25,465,000	16,805,000	7,690,000	-	-	-	-	-	-	-	-
554,305,000	523,060,000	479,040,000	434,925,000	396,800,000	356,845,000	315,035,000	280,360,000	253,140,000	224,455,000	194,300,000
326,804,000	310,102,000	310,000,000	310,000,000	310,000,000	300,000,000	300,000,000	300,000,000	300,000,000	300,000,000	300,000,000
326,804,000	310,102,000	310,000,000	310,000,000	310,000,000	300,000,000	300,000,000	300,000,000	300,000,000	300,000,000	300,000,000
(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)
(23,021,000)	(23,021,000)	(23,021,000)	(23,021,000)	(23,021,000)	(23,021,000)	(23,021,000)	(23,021,000)	(23,021,000)	(23,021,000)	(23,021,000)
(14,180,000)	(14,180,000)	(14,180,000)	(14,180,000)	(14,180,000)	(14,180,000)	-	-	-	-	-
(2,600,000)	(2,600,000)	(2,600,000)	-	-	-	-	-	-	-	-
1,466,684,320	1,377,815,607	1,291,179,041	1,205,437,971	1,121,186,386	1,034,608,730	970,504,493	897,802,538	830,893,132	774,299,959	715,024,144
74,500,000	78,400,000	82,600,000	87,000,000	91,600,000	96,500,000	101,600,000	107,000,000	112,700,000	118,700,000	125,000,000
1.97%	1.76%	1.56%	1.39%	1.22%	1.07%	0.96%	0.84%	0.74%	0.65%	0.57%
55,500,000	57,900,000	60,400,000	63,000,000	65,700,000	68,500,000	71,400,000	74,500,000	77,700,000	81,000,000	84,500,000
2.64%	2.38%	2.14%	1.91%	1.71%	1.51%	1.36%	1.21%	1.07%	0.96%	0.85%
1,815,035	1,818,035	1,821,035	1,824,035	1,827,035	1,829,035	1,831,035	1,832,035	1,832,035	1,832,035	1,832,035
808.07	757.86	709.04	660.86	613.66	565.66	530.03	490.06	453.54	422.64	390.29

Table 3. NET TAX SUPPORTED DEBT SERVICE FOR FISCAL YEARS 2002 - 2018

	6/30/2002 FY02	6/30/2003 FY03	6/30/2004 FY04	6/30/2005 FY05	6/30/2006 FY06	6/30/2007 FY07
General Obligation Debt Service						
Better Highways of 1973	13,651,806	8,932,506	6,360,225	3,909,038	1,566,950	-
Safe Roads of 1996 (net)	36,341,486	41,063,435	43,638,245	46,086,985	48,430,648	49,996,888
Better Schools of 1972	4,454,000	2,244,000	2,122,000	-	-	-
Infrastructure of 1994 (net)	16,076,399	16,022,923	15,991,970	15,920,030	19,664,363	23,247,935
Total General Obligation Debt Service	70,523,691	68,262,864	68,112,440	65,916,053	69,661,960	73,244,823
Moral Obligation Debt Service						
Economic Development Authority - Lottery	-	-	-	24,898,615	18,932,303	18,904,231
School Building Authority	20,573,905	23,345,905	22,644,690	22,642,530	21,561,365	23,345,747
School Building Authority - Lottery	17,551,156	17,572,516	17,539,594	26,499,359	18,028,268	18,107,543
State Building Commission - Lottery	9,847,988	9,836,988	9,830,488	9,822,613	9,794,175	9,782,413
Interagency Investment - $150 Million Regional Jail	10,313,520	-	-	-	-	-
Total Moral Obligation Debt Service	58,286,569	50,755,408	50,014,771	83,863,117	68,316,111	70,139,933
Lease Debt Service						
Leases	25,000,000	33,000,000	35,500,000	36,758,000	39,716,000	39,780,000
Total Lease debt service	25,000,000	33,000,000	35,500,000	36,758,000	39,716,000	39,780,000
Net Tax Supported Debt Service	153,810,260	152,018,272	153,627,211	186,537,169	177,694,071	183,164,755
General revenue fund (expressed in thousands)	2,824,117	2,916,961	3,082,941	3,504,830	3,661,402	3,752,722
Debt service as a percentage of general revenue fund	5.45%	5.21%	4.98%	5.32%	4.85%	4.88%
Revenue (expressed in thousands and as defined in the rule)	3,655,932	3,753,890	4,034,183	4,410,589	4,753,106	4,898,707
Debt as a percentage of revenue (as defined in the rule)	4.21%	4.05%	3.81%	4.23%	3.74%	3.74%

Revenue information provided by the West Virginia Budget Office (see Appendix).

6/30/2008 FY08	6/30/2009 FY09	6/30/2010 FY10	6/30/2011 FY11	6/30/2012 FY12	6/30/2013 FY13	6/30/2014 FY14	6/30/2015 FY15	6/30/2016 FY16	6/30/2017 FY17	6/30/2018 FY18
-	-	-	-	-	-	-	-	-	-	-
49,995,733	49,998,580	49,996,764	49,996,264	49,997,983	38,619,853	36,978,446	36,983,727	36,983,064	23,516,375	23,516,375
-	-	-	-	-	-	-	-	-	-	-
23,033,314	23,031,736	23,021,864	23,020,648	23,016,094	23,016,936	23,026,510	23,034,603	23,027,014	23,014,284	23,027,206
73,029,047	73,030,316	73,018,628	73,016,912	73,014,077	61,636,789	60,004,956	60,018,330	60,010,078	46,530,659	46,543,581
18,886,178	18,865,029	18,845,344	18,829,686	18,811,894	18,794,224	18,778,390	18,764,110	18,714,645	18,702,373	18,685,164
23,345,982	11,874,675	23,345,075	23,308,825	23,313,425	23,298,475	23,308,645	23,308,582	23,312,770	23,423,270	23,421,520
17,910,093	18,046,918	17,976,820	17,980,610	18,006,148	18,031,504	17,983,673	8,873,674	-	-	-
9,772,688	9,769,588	9,757,994	7,891,863	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
69,914,940	58,556,209	69,925,232	68,010,983	60,131,467	60,124,203	60,070,708	50,946,366	42,027,415	42,125,643	42,106,684
39,750,000	39,750,000	39,750,000	39,500,000	39,500,000	39,500,000	39,500,000	39,500,000	39,000,000	39,000,000	39,000,000
39,750,000	39,750,000	39,750,000	39,500,000	39,500,000	39,500,000	39,500,000	39,500,000	39,000,000	39,000,000	39,000,000
182,693,987	171,336,525	182,693,860	180,527,895	172,645,543	161,260,991	159,575,664	150,464,696	141,037,493	127,656,302	127,650,265
3,819,000	3,902,733	4,029,303	4,162,733	4,268,643	4,451,953	4,585,500	4,723,100	4,864,800	5,010,700	5,161,000
4.78%	4.39%	4.53%	4.34%	4.04%	3.62%	3.48%	3.19%	2.90%	2.55%	2.47%
4,949,015	4,972,348	5,098,719	5,238,995	5,370,039	5,523,441	5,656,988	5,794,588	5,936,288	6,082,188	6,232,488
3.69%	3.45%	3.58%	3.45%	3.21%	2.92%	2.82%	2.60%	2.38%	2.10%	2.05%

Net Tax Supported Debt Components

General Obligation Bonds

The General Obligation (GO) debt outstanding at June 30, 2007 was $683.7 million. GO Bonds pledge the full faith and credit of the state and are authorized only by a constitutional amendment approved by 2/3rds of both houses of the Legislature and a majority vote of the public. GO Bonds constitute 43% of the state's net tax supported debt.

<u>Safe Road Amendment of 1996</u>

This amendment authorized bonds to be issued in an amount not to exceed $550 million. As of June 30, 2007, the entire authorized amount had been issued and the net principal outstanding was $429.8 million. The bonds will be completely retired on June 1, 2025.

Table 4 shows the debt service burden on the Road Fund from 2002 through Fiscal Year 2007 and also projects the future debt service burden on the fund through Fiscal Year 2018. According to these projections, the debt service burden peaked at 9.18% during fiscal year 2003.

Table 4
Historical/Projected Debt Service Burden
State Road Fund

Fiscal Year	Debt Service	Road Fund Revenue	Debt Service as % of Road Fund
2002	49,993,292	563,515,000	8.87%
2003	49,995,941	544,729,000	9.18%
2004	49,998,470	570,742,000	8.76%
2005	49,996,023	578,050,000	8.65%
2006	49,997,598	580,904,000	8.61%
2007	49,996,888	611,085,000	8.18%
2008	49,995,733	664,315,000	7.53%
2009	49,998,580	638,115,000	7.84%
2010	49,996,764	632,916,000	7.90%
2011	49,996,264	635,962,000	7.86%
2012	49,997,983	633,496,000	7.89%
2013	38,619,853	630,588,000	6.12%
2014	36,978,446	630,588,000	5.86%
2015	36,983,727	630,588,000	5.86%
2016	36,983,064	630,588,000	5.86%
2017	23,516,375	630,588,000	3.73%
2018	23,516,375	630,588,000	3.73%

Infrastructure Improvement Amendment of 1994

This amendment authorized bonds in an amount not to exceed $300 million for water supply and sewage treatment systems and economic development sites. The bonds are secured by a dedication of the first $24 million in severance tax collections. The principal outstanding at June 30, 2007 was $253.9 million. All of the General Obligation Infrastructure bonds issued will be retired on November 1, 2026.

The Infrastructure Council also has revenue bonding authority. Revenue issues of this kind do not carry the same rating of a General Obligation issue since the state's taxing power is not pledged toward repayment of the bonds. The proceeds of these bonds were used to provide financial assistance to local governmental entities to finance all or part of the cost of constructing water, wastewater and/or economic development projects. As these bonds are self-supporting, they are not included in the calculation of net tax supported debt.

Authorized but Unissued General Obligation Bonds

It is a common practice among those examining the state's credit to look at debt that is authorized but has not been issued.

Vietnam Veterans Bonus Amendment of 1973, Veterans Bonus Amendment of 1992 and the Veterans Bonus Amendment of 2004

These amendments authorized the sale of bonds of not more than $40 million, $4 million and $8 million, respectively, for the purpose of paying a bonus to the veterans serving in foreign conflicts. General Revenue Funds were used to pay all of these bonuses and no bonds were issued.

Qualified Veterans Housing Bonds Amendment (1984)

This amendment authorized the sale of bonds to provide financing for owner-occupied residences for persons determined by the Legislature to be qualified veterans. The amount of the bonds that may be issued is limited to bonds in which the annual principal and interest do not exceed a total of $35 million in any fiscal year.

Moral Obligation Bonds

Various revenue bonds issued by State of West Virginia entities have a moral commitment of the State attached to them. Moral obligation bonds of the state constitute approximately 33% of the total net tax supported debt. Based on the definitions in the West Virginia Code and the Rules for the Reporting of Debt Capacity (see Appendix A), the debt issues include the School Building Authority Capital Improvement Revenue Bonds secured by appropriations of General Revenue funds and the Lottery Revenue Bonds issued by the Economic Development Authority, the School Building Authority and the State Building Commission.

School Building Authority Capital Improvement Revenue Bonds

The School Building Authority Capital Improvement Revenue Bonds net principal outstanding at June 30, 2007 was $208.4 million. No "new money" bonds may be issued by the Authority utilizing General Revenue appropriations for repayment.

Lottery Revenue Bonds

The State's Lottery Revenue Bonds outstanding as of June 30, 2007 total $331.1 million (net). This total includes one issue of the Economic Development Authority, one issue of the School Building Authority and one issue of the State Building Commission.

The bonds issued by the Economic Development Authority are secured by an annual pledge of $19 million from the Excess Lottery Fund and, under certain circumstances, from a portion of the moneys on deposit in the State Lottery Fund. The bonds issued by the School Building Authority are secured by a first lien on the net proceeds of the State Lottery Fund and the bonds issued by the State Building Commission are secured by a second in priority lien of the State Lottery Fund.

Leases

As of June 30, 2007, there was $382.6 million of leases outstanding. Approximately $28.2 million of new leases were entered into during Fiscal Year 2007. The largest issue was a $10.8 million dollar lease for various building renovations and equipment for West Virginia University – Institute of Technology in Montgomery, West Virginia. The total amount of leases outstanding in this report ($382.6 million) will differ slightly from the figure reported in the state's Comprehensive Annual Financial Report (CAFR). This is due to several factors including materiality levels and the fact that this report includes state colleges and universities when reporting the amount of leases outstanding.

Deductions for Debt Service Reserve Accounts

A debt service reserve fund can be set up initially out of bond proceeds, can be built up over time or can be funded through a credit facility, such as a surety bond. Reserve funds are tapped only if funds are insufficient to meet the debt service payments and when retiring the debt. These reserve funds are typically set at an amount equal to six months to one year's debt service. The various reserve funds are outlined in the following table, along with the revenue source, the principal outstanding at June 30, 2007, and the remaining authorization.

Table 5
Net Tax Supported Debt – Various Statistics
at June 30, 2007

Type of Obligation	Issue	Payable From	Principal Outstanding as of 6/30/07 (thousands)	Reserve Accounts as of 6/30/07 (thousands)	Remaining Authorization as of 6/30/07 (thousands)
General Obligation Bonds	Safe Roads of 1996	Road Fund	$429,845	NA	$0
	Infrastructure Improvement of 1994	Coal Severance Tax/General Revenue	$253,919	NA	$0
Moral Obligation Bonds	School Building Authority	General Revenue Fund	$231,475	$23,021	$0
	Economic Development Authority	Excess Lottery Fund	$221,565	$18,990	$0
	School Building Authority	Lottery Fund	$111,700	$14,180	per Legislation
	State Building Commission	Lottery Fund	$33,675	$2,600	$0
Leases	Various	Various	$382,615	NA	NA

<u>Purpose II. Calculate key ratios that are commonly used to examine debt</u>
Key ratios establish benchmarks that the municipal bond industry and others use to provide a measurement of a state's outstanding debt and the servicing (principal and interest payments) of that debt. Ratios are useful tools since they provide quantifiable measurements which are used when analyzing a state's fiscal position. Ratios can also provide insight into economic trends and a state's reliance on debt financing. The debt ratios used in this report include:

Net Tax Supported Debt Service as a Percentage of the General Revenue Fund;

Net Tax Supported Debt Service as a Percentage of Revenues;

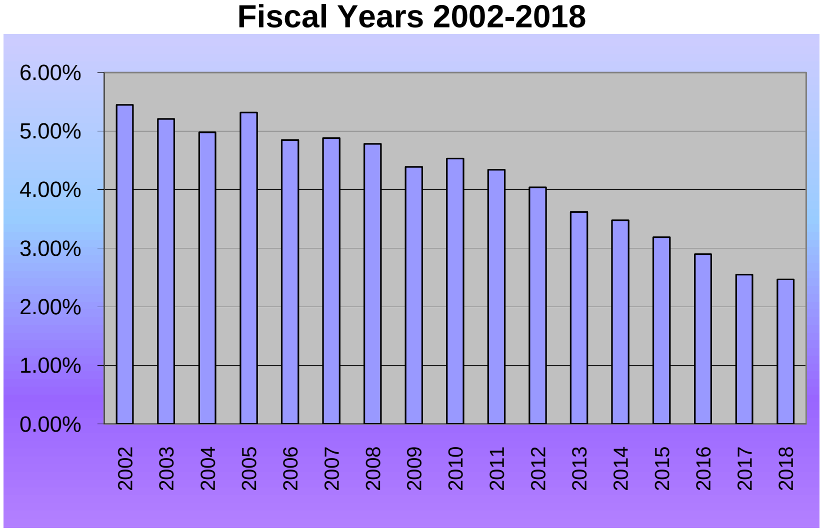
Net Tax Supported Debt as a Percentage of Personal Income;

Net Tax Supported Debt Per Capita; and

Net Tax Supported Debt as a Percentage of Assessed Value.

<u>Net Tax Supported Debt Service as a Percentage of the General Revenue Fund</u>
This ratio is not required to be examined; however, it is a traditional measurement which provides important information on the debt service burden of the state's General Revenue Fund. At June 30, 2007, the State's General Revenue Fund had a 4.88% potential debt service burden (see Table 3, pages 10-11). Projections for the General Revenue Fund of the state were provided by the West Virginia Department of Revenue and are provided in Appendix B.

Chart 2
Net Tax Supported Debt Service as a Percentage of the General Revenue Fund
Fiscal Years 2002-2018



Net Tax Supported Debt Service as a Percentage of Revenues
The definition of revenue includes:

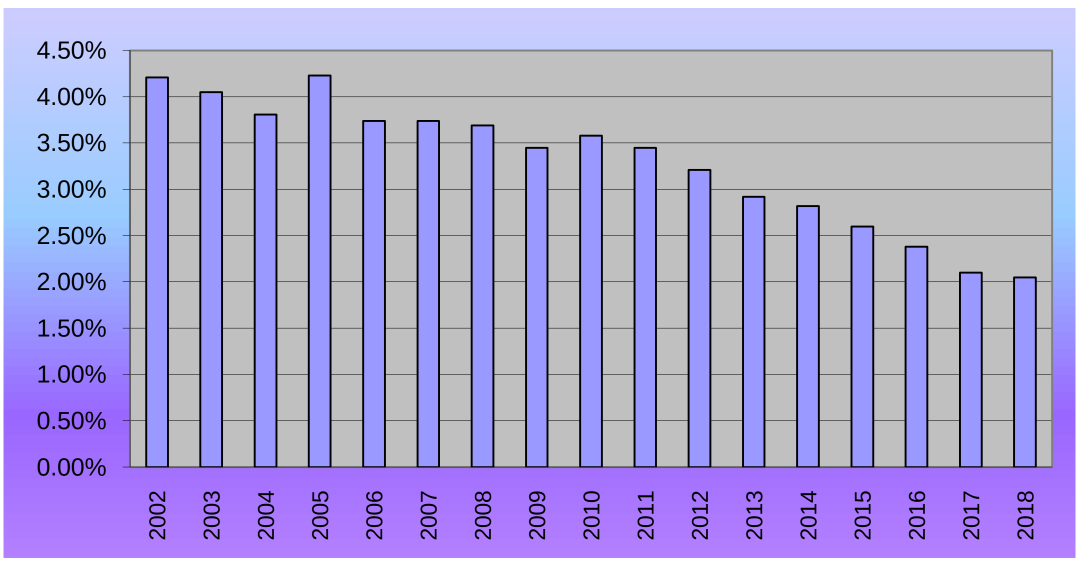
1. Total funds deposited in the general revenue fund;

2. The entire related revenue stream for any net tax supported debt which is funded from a source other than the state's General Revenue Fund; plus

3. An amount equal to any deductions from the gross General Revenue Fund for debt service of tax supported debt before the revenue is added to the General Fund.

At June 30, 2007, the state had a net tax supported debt service burden, as a percentage of revenues of 3.74% (see Table 3, pages 10-11).

Chart 3
Net Tax Supported Debt Service as a Percentage of Revenues
Fiscal Years 2002-2018



Net Tax Supported Debt as a Percentage of Personal Income
The income figures in this year's report were compiled and provided by the West Virginia Department of Revenue and are included in Table 2, pages 8-9.

The ratio of debt outstanding as a percentage of personal income is not a determining factor on its own; however, this ratio is required by statute to be examined for the purposes of this report. This ratio is a good indicator of the potential resources to repay debt. Since there is a taxing pledge placed on all General Obligation Bonds, this ratio indicates the ability of the citizens to pay such taxes in the event of a revenue shortfall.

Table 6 lists West Virginia and those states that share a Moody's ranking of Aa3 as of December 31, 2006. West Virginia, according to Moody's, had a net tax supported debt, as a percentage of personal income, of 3.9% as of December 31, 2006. According to our calculation, West Virginia had a net tax supported debt, as a percentage of personal income, of 3.02% as of June 30, 2007. This does not match the figure calculated by Moody's Investor Services due to the timing of the report and the information that was available at the time of publication.

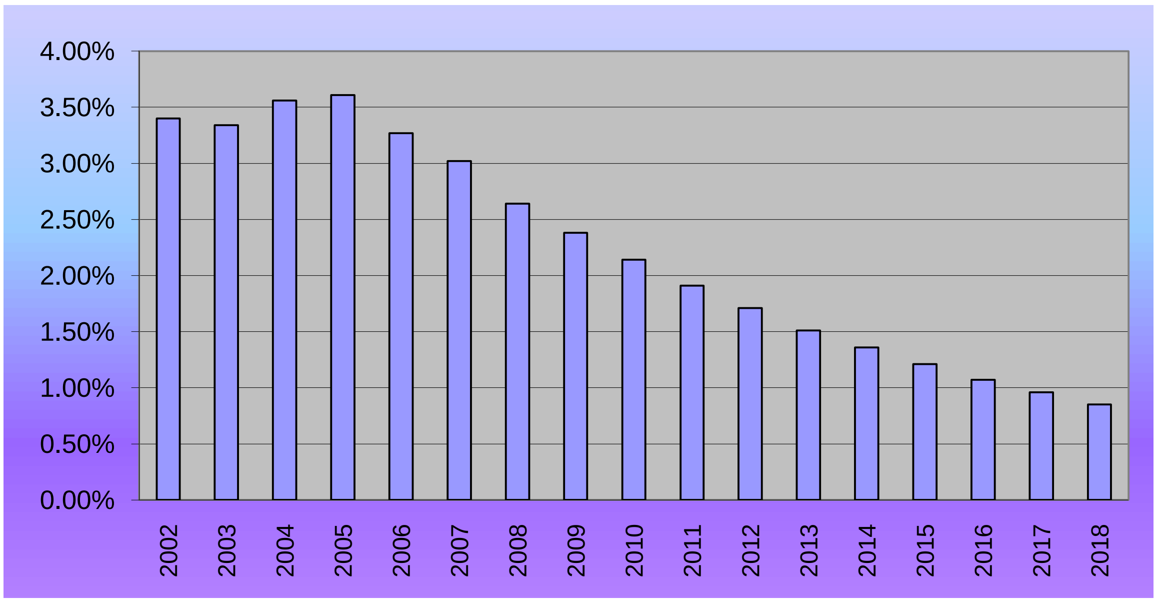
Table 6
Net Tax Supported Debt as a Percentage of Personal Income
Similarly Rated States

State	Moody's Rating	NTSD as a % of Personal Income
Maine	Aa3	1.9%
Arizona	Aa3	2.0%
West Virginia	Aa3	3.9%
Wisconsin	Aa3	4.2%
Oregon	Aa3	4.6%
Rhode Island	Aa3	4.6%
Mississippi	Aa3	4.9%
Illinois	Aa3	5.5%
New York	Aa3	6.7%
New Jersey	Aa3	7.6%
Connecticut	Aa3	7.8%

Source: "Moody's Investors Services, 2007 State Debt Medians," April 2007

The following chart examines the net tax supported debt as a percentage of personal income for fiscal years 2002 through 2018 based on the data contained in Table 2, pages 8-9:

Chart 4
Net Tax Supported Debt as a Percentage of Personal Income
Fiscal Years 2002-2018



<u>Net Tax Supported Debt per Capita</u>
The State of West Virginia has experienced a positive population trend the past several years. For the 12 months ending in July 2007, the state saw a gain of more than 3,336 residents. According to a report from the West Virginia University's Bureau of Business and Economic Research, assuming that the nation is able to avoid a recession, West Virginia could experience a population growth of 3,000 residents per year during the next five years. However, the National Bureau of Economic Research President Martin Feldstein announced on January 10, 2008 that a recession, "…in my judgment is more likely than not, but it's not a sure thing. "

This particular ratio of debt per capita shows the debt service burden on the total population of the state. The debt per capita peaked at $958 in fiscal year 2005. The national average debt per capita has risen from $662 in 1997 to $1,101 in 2007.

Table 7 lists West Virginia and those states that share a similar rating of Aa3 from Moody's as of December 31, 2006.

Table 7
Net Tax Supported Debt per Capita
Similarly Rated States

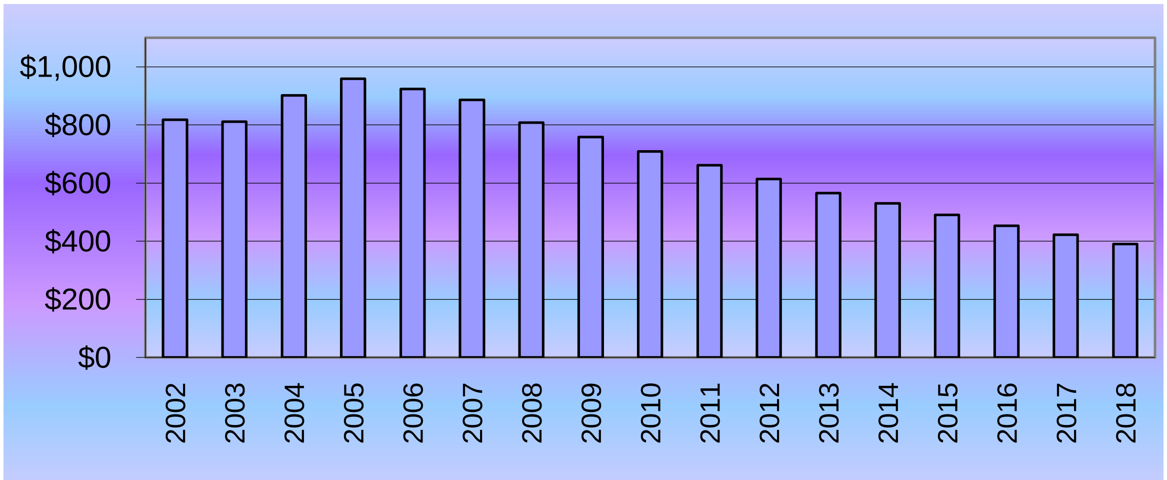
State	Moody's Rating	NTSD per capita
Arizona	Aa3	$594
Maine	Aa3	$603
West Virginia	Aa3	$1,071
Mississippi	Aa3	$1,247
Wisconsin	Aa3	$1,405
Oregon	Aa3	$1,464
Rhode Island	Aa3	$1,687
Illinois	Aa3	$1,976
New York	Aa3	$2,694
New Jersey	Aa3	$3,317
Connecticut	Aa3	$3,713

Source: "Moody's Investors Services, 2007 State Debt Medians," April 2007

According to our calculations, West Virginia had a net tax supported debt per capita of $886 as of June 30, 2007 (see Table 2, pages 8-9 for the specific calculation). This figure does not match with the calculation presented in the Moody's "State Debt Medians" report due to the timing of the report and the information that was available at the time of publication.

The following chart examines the net tax supported debt per capita for fiscal years 2002 through 2018 based on the data contained in Table 2, pages 8-9:

Chart 5
Net Tax Supported Debt per Capita
Fiscal Years 2002-2018



Net Tax Supported Debt as a Percentage of the Assessed Value of Taxable Property

It is difficult to find guidance on this ratio since it is not typically used or discussed; however, it is a ratio analysis required by West Virginia law. As of June 30, 2007, the net tax supported debt as a percentage of assessed value is 2.27%.

Purpose III. Make recommendations which will attempt to keep the state within an average to low range of nationally recognized debt limits

The final step in this analysis is making recommendations based on keeping the state within a certain range of debt ratios. Most ratios are easily accessible; therefore, making comparisons to other states and making recommendations of keeping the state in the average to low range is quite easy. There are also certain industry practices that have been recognized as prudent fiscal management. For example, many states have constitutional or statutory caps on how much of their General Fund can be obligated toward debt repayment.

The following table was derived from Moody's *"2007 State Debt Medians."* It shows the average (or "median"), the high and the low for two of the ratios examined in this report. This comparison is made to West Virginia ratios in order to carry out the legislative intent of this report, which is to make recommendations with the aim of keeping the state in the "average to low range of nationally recognized debt limits." The national average debt per capita for 2007 is $1,101 and the average debt as a percentage of personal income is currently 3.2%.

Table 8 – Moody's "2007 State Debt Medians"
April 2007

Ratio	Average	High	Low	West Virginia Ranking#
NTSD per capita	$1,101	$4,153 Massachusetts	$24 Nebraska	$1,071 #19
NTSD as a % of Personal Income	3.2%	10.6% Hawaii	0.1% Nebraska	3.9% #17
Total NTSD	NA	$59.1 billion California	$42 million Nebraska	$1.9 billion #31

As reported by Moody's in April 2007. These figures do not necessarily agree with the amounts stated in this report by the West Virginia State Treasurer's Office, generally due to timing and the inclusion of certain obligations. For our specific calculations, see Tables 2 and 3, pages 8 through 11.

The following tables outline the recommendations made in previous debt capacity reports and the current recommendations.

Table 9
Debt Capacity Report - Past Ratio Recommendations & Levels

Ratio	2003		2004		2005		2006	
	Recommended	Actual	Recommended	Actual	Recommended	Actual	Recommended	Actual
NTSD service as a % of the General Revenue Fund	5.00%	5.21%	5.00%	4.98%	5.00%	5.32%	5.00%	4.85%
NTSD service as a % of Revenues	4.00%	4.05%	4.00%	3.81%	4.00%	4.23%	4.00%	3.74%
NTSD as a % of Personal Income	2.70%	3.34%	3.00%	3.56%	3.00%	3.61%	3.00%	3.27%
NTSD per capita	$800	$811	$850	$902	$950	$958	$1,000	$923
NTSD as a % of Assessed Value	2.00%	2.86%	2.00%	2.96%	2.00%	3.06%	2.00%	2.63%

Table 10
Debt Capacity Report, Current Ratio Recommendations & Levels

Ratio	June 30, 2007	
	Recommended	Actual
NTSD service as a % of the General Revenue Fund	5.50%	4.88%
NTSD service as a % of Revenues	4.00%	3.74%
NTSD as a % of Personal Income	3.00%	3.02%
NTSD per capita	$1,000	$886
NTSD as a % of Assessed Value	2.00%	2.27%

NTSD stands for Net Tax Supported Debt

Net Tax Supported Debt Service as a Percentage of the General Revenue Fund

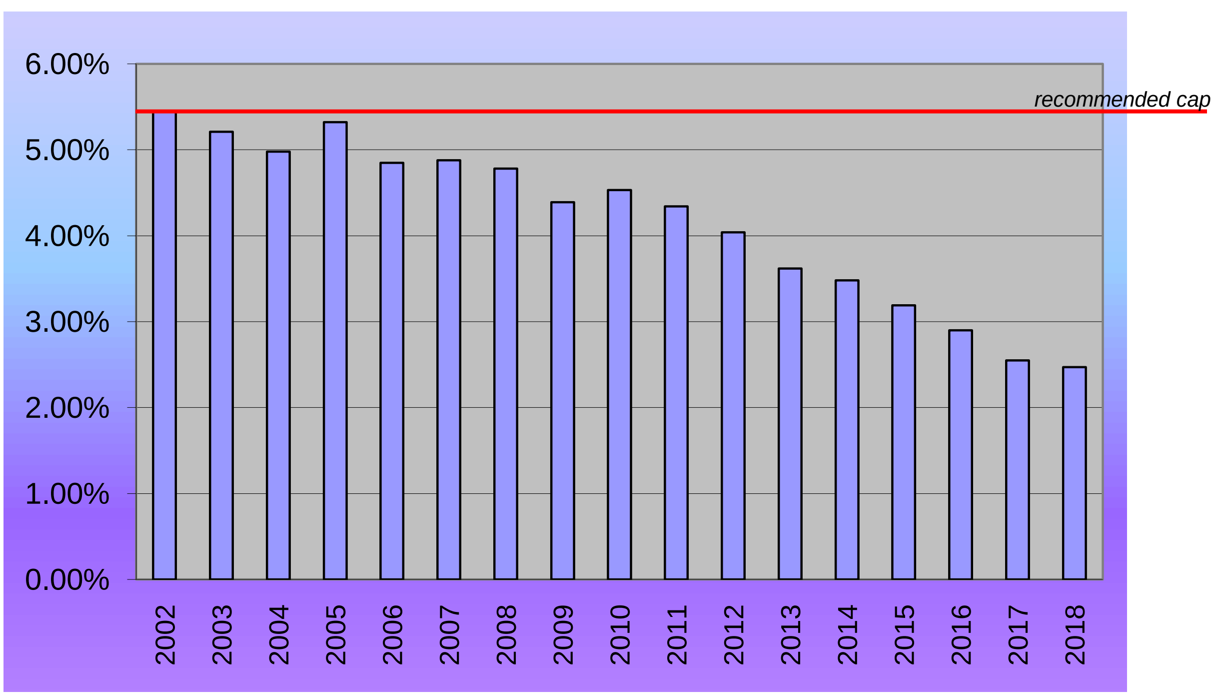
Perhaps the most important ratio measurement is the debt service burden on the General Revenue Fund. This ratio shows the potential strain on the General Revenue Fund if, for some reason, all other funds are insufficient to pay debt service. Table 11 (below) was developed through research of several publications such as "Developing Formal Debt Policies" a publication from GFOA, "Benchmark GO Ratios" from Standard & Poor's Credit Week, and various debt management reports from around the country.

Table 11 – Burden Levels of Net Tax Supported Debt Service as a Percentage of the General Revenue Fund

0 to 5%	6 to 7%	8 to 10%
LOW	MEDIUM	HIGH

As detailed in Table 10, page 23, the state had a 4.88% debt burden as a percentage of the General Revenue Fund at June 30, 2007. This is currently below the recommended cap of 5.5% as demonstrated in the following chart:

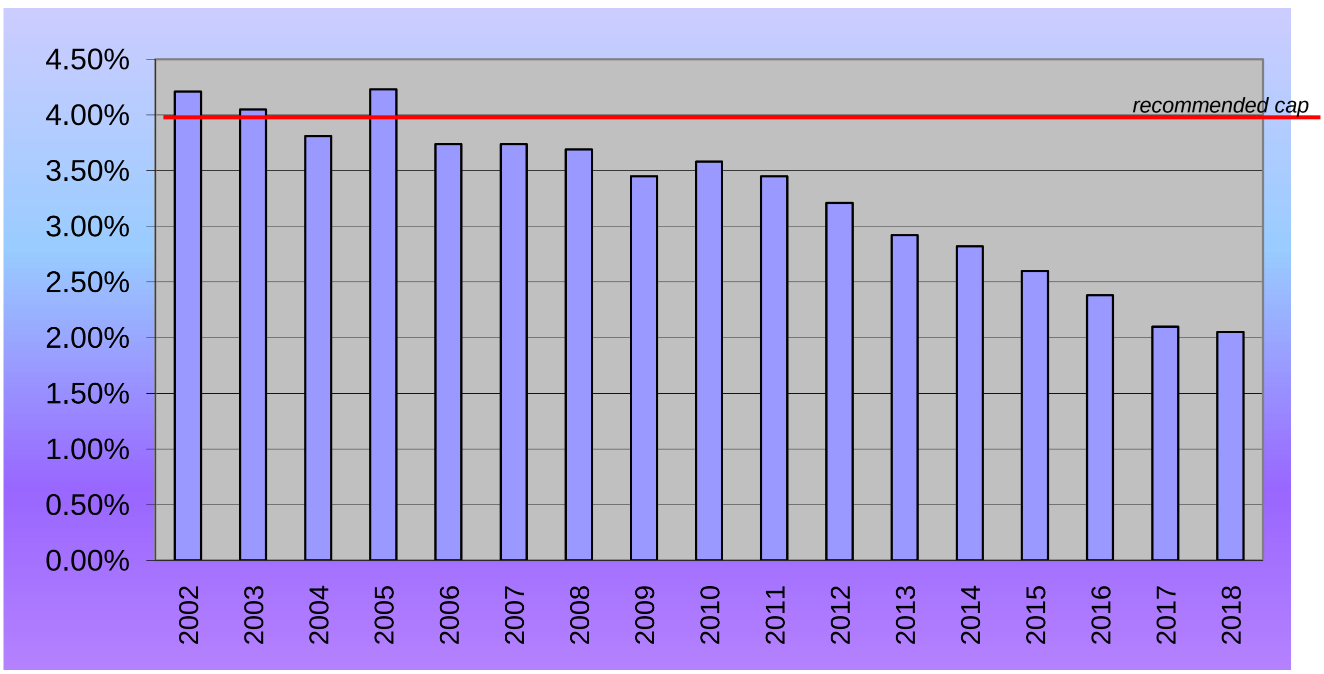
Chart 6
Recommended Cap of Net Tax Supported Debt Service as a Percentage of the General Revenue Fund
Fiscal Years 2002-2018



Net Tax Supported Debt Service as a Percentage of Revenues
The recommended cap on this particular ratio is currently at 4%. This ratio is lower because it includes all revenues, e.g. the Road Fund, the Lottery Fund and the dedicated severance tax collections used to pay debt service on the Infrastructure General Obligation Bonds. At June 30, 2007, the state had a net tax supported debt service burden as a percentage of revenues of 3.74%.

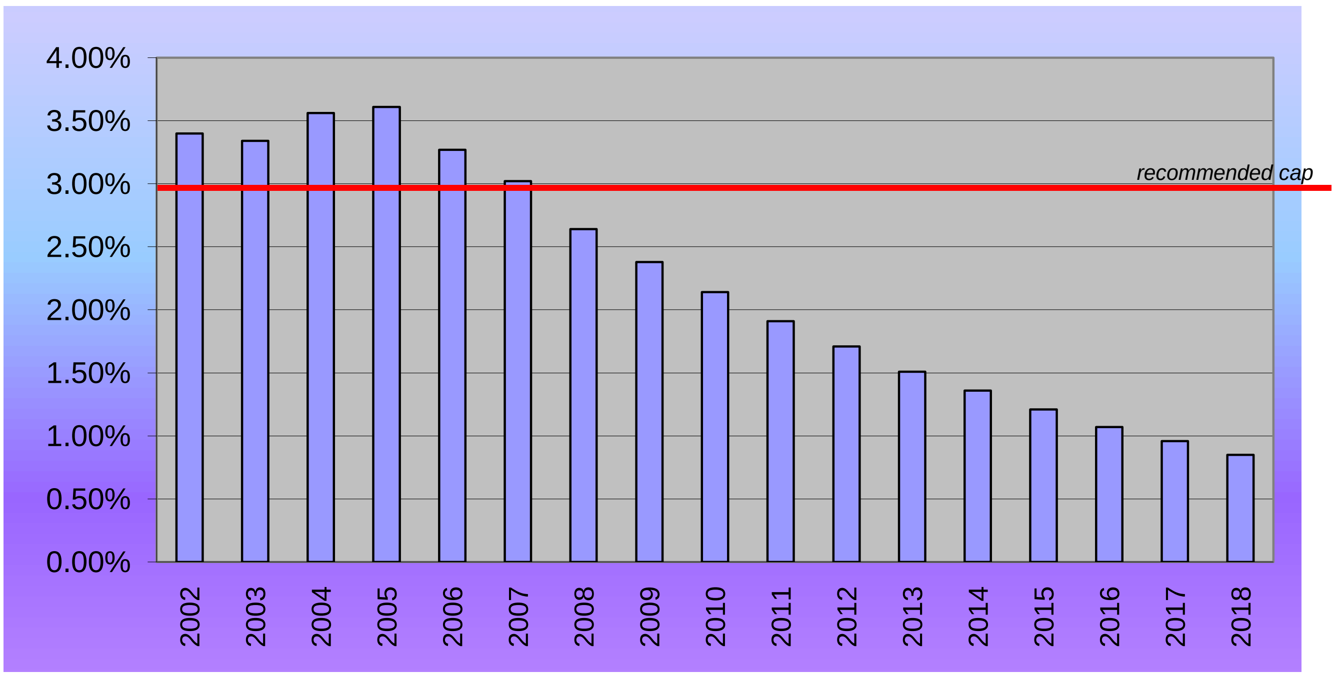
The following chart examines the net tax supported debt service requirements as a percentage of revenues for fiscal years 2002 through 2018, in relation to our recommended cap of 4%, and based on the data contained in Table 3, pages 10-11:

Chart 7
Recommended Cap of Net Tax Supported Debt Service as a Percentage of Revenues
Fiscal Years 2002-2018



<u>Net Tax Supported Debt as a Percentage of Personal Income</u>
The recommended cap for this particular ratio is 3.0% because the average net tax-supported debt as a percentage of personal income is 3.2% and this report calls for recommendations on the average-to-low range of the ratio. The following chart examines the net tax supported debt outstanding as a percentage of personal income for fiscal years 2002 through 2018, in relation to our recommended cap of 3.0% and based on data contained in Table 2, pages 8-9:

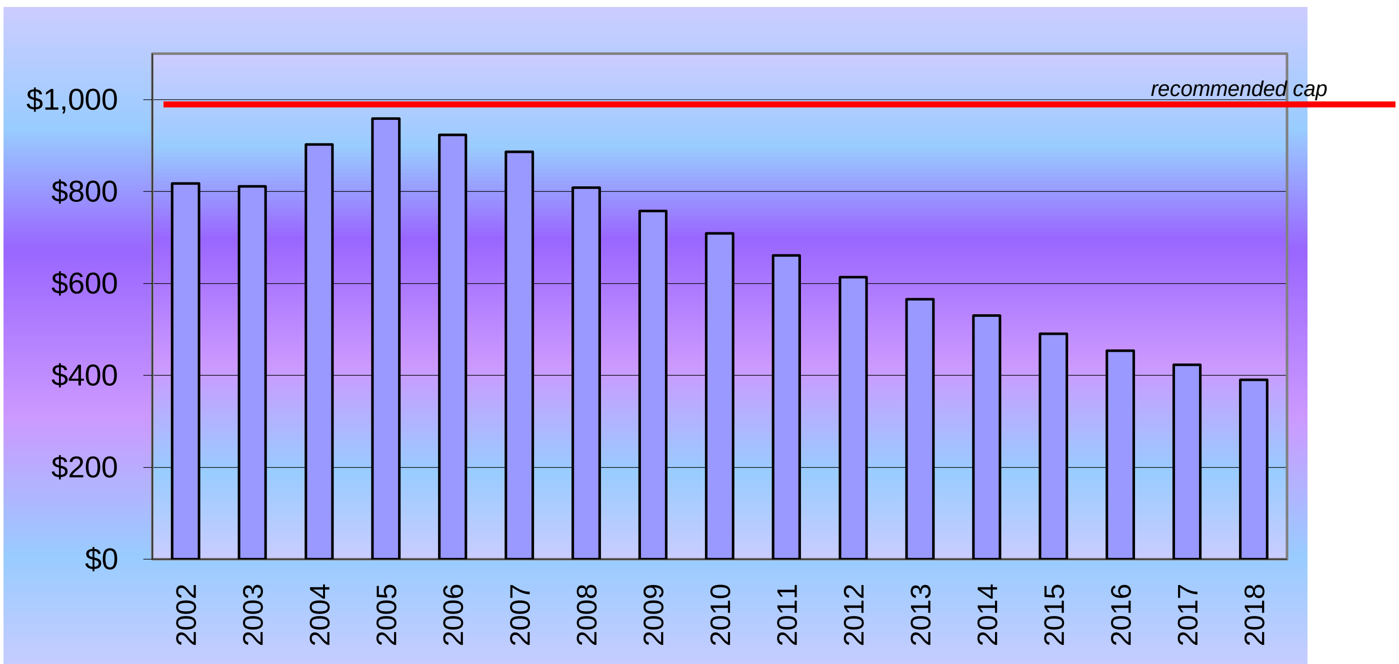
Chart 8
Recommended Cap of Net Tax Supported Debt
as a Percentage of Personal Income
Fiscal Years 2002-2018



Net Tax Supported Debt Per Capita

The national average of this particular ratio has grown from $662 in 1997 to $1,101 in 2007. Based upon the current national average, the recommendation for this particular cap is $1,000. The following chart examines the net tax supported debt per capita for fiscal years 2002 through 2018, in relation to our recommended cap of $1,000 and based on data contained in Table 2, pages 8-9:

Chart 9
Recommended Cap of Net Tax Supported Debt per Capita
Fiscal Years 2002-2018



Net Tax Supported Debt as a Percentage of the Assessed Value of Taxable Property

As of June 30, 2007, the net tax supported debt as a percentage of assessed value is 2.27%. The recommended cap for this recommendation is 2.0% and has no basis on any particular research since none has been located at the time of this publication.

Summary of Recommendations

West Virginia is below the recommended cap on three of the key ratios, including the two most important measures presented in this report, which are as follows:

Net Tax Supported Debt Service as a Percentage of the General Revenue Fund, and
Net Tax Supported Debt Service as a Percentage of Revenues.

Having this capacity is very important as West Virginia deals with a myriad of financial issues including pension funding and the liability of providing post-employment benefits to state employees. It is also important to have this capacity since many believe that an economic slowdown and recession are probable.

This Debt Capacity report is required to make recommendations based on certain criteria which have been discussed throughout the report. Therefore, to comply with the requirements of the report the following recommendations are made:

Based on the mid-to-low range of nationally recognized debt limits, we recommend the following caps:

Net Tax Supported Debt Service as a percentage of the General Revenue Fund:	5.0%
Net Tax Supported Debt Service as a percentage of Revenues:	4.0%
Net Tax Supported Debt as a percentage of Personal Income:	3.0%
Net Tax Supported Debt Per Capita:	$1,000
Net Tax Supported Debt as a percentage of Assessed Value:	2.0%

We recommend that any additional debt issued be carefully scrutinized and be used in a prudent manner to keep West Virginia at or below the recommended levels of debt. We also recommend that any new debt should be issued as General Obligation debt since it carries the highest quality and requires a constitutional amendment. This recommendation applies to net tax supported debt only and is not intended to inhibit the issuance of self-supporting revenue bonds.

Appendix A

West Virginia State Code §12-6B
&
Legislative Rule, Title 112 Series 9

This page intentionally blank.

West Virginia State Code §12-6B
DEBT CAPACITY ADVISORY DIVISION.

§12-6B-1. Purpose.
The purpose of this article is to provide a mechanism by which necessary information may be provided to the governor and the Legislature so that they may prudently manage the state's financial resources by attempting to keep the state within an average to low range of nationally recognized debt limits. The ratio measurements which may be taken into consideration in attempting to meet these limits include, but are not limited to, outstanding net tax supported debt per capita, net tax supported debt as a percentage of personal income, net tax supported debt as a percentage of assessed valuation, and any other criteria that recognized bond rating agencies use to judge the quality of issues of state bonds.

§12-6B-2. Debt capacity advisory division created.
There is hereby created within the offices of the state treasurer a debt capacity advisory division.

§12-6B-3. Definitions.
For the purpose of this article:

(a) "Debt" means bonds, notes, certificates of participation, certificate transactions, capital leases and all other forms of securities and indebtedness.

(b) "Debt impact statement" means a signed statement from the treasurer which shall include such information and be in such form, as determined by the division, for the Legislature or the governor to make an informed decision concerning the issuance of debt by the state or its spending units.

(c) "Division" means the debt capacity advisory division established in this article.

(d) "Net tax supported debt as a percentage of assessed valuation" means the net tax supported debt, as determined by the division, divided by the most recently available estimated assessed valuation of all taxable property in the state by the West Virginia department of tax and revenue.

(e) "Net tax supported debt as a percentage of personal income" means the net tax supported debt, as determined by the division, divided by the most recently available personal income figures for the state by the West Virginia bureau of employment programs.

(f) "Net tax supported debt per capita" means the state's net tax supported debt, as determined by the division, divided by the most recently available population estimate for the state by the United States department of commerce.

(g) “Spending unit” means any of the state’s agencies, boards, commissions, committees, authorities, or other of its entities with the power to issue debt and secure such debt, but not including local political subdivisions of the state.

(h) “Tax supported debt” means: (1) All obligations of the state or any spending unit to which the state’s full faith and credit is pledged to pay directly or by guarantee (provided that any such guaranteed obligations shall be included only to the extent any such obligations are in default); and (2) all obligations of the state or any agency or authority thereof extending beyond one year with respect to the lease, occupancy or acquisition of property which are incurred in connection with debt financing transactions, including, but not limited to, certificates of participation, and which are payable from taxes, fees, permits, licenses and fines imposed or approved by the Legislature.

Tax supported obligations do not include: (1) Any obligations of the West Virginia housing development fund, the economic development authority, the hospital finance authority, the West Virginia parkway authority, the West Virginia public energy authority, the West Virginia solid waste management board, and the West Virginia water development authority; (2) revenue anticipation notes or bonds of the state; or (3) any obligations to the extent that the debt service with respect thereto is reasonably expected to be offset, as determined by the division, by lease payments, user fees, federal grants or other payments from some source other than the general fund. Such payments shall be used expressly for the purpose of paying debt service.

(i) “Treasurer” means the treasurer of the state of West Virginia.

§12-6B-4. Powers and duties.
The division shall perform the following functions and duties:

(a) Promulgate rules pursuant to article three, chapter twenty-nine-a of this code, for the management and conduct of its affairs;

(b) Annually review the size and condition of the state’s tax-supported debt and submit to the governor and to the Legislature, on or before the fifteenth day of January of each year, an estimate of the maximum amount of new tax-supported debt that prudently may be authorized for the next fiscal year, together with a report explaining the basis for the estimate. The estimate shall be advisory and in no way restrict the governor or the Legislature. In preparing its annual review and estimate, the division shall, at a minimum, consider:

(1) The amount of net tax supported debt that, during the next fiscal year and annually for the following ten fiscal years: (A) Will be outstanding; and (B) has been authorized but not yet issued;

(2) Projected debt service requirements during the next fiscal year and annually for the following ten fiscal years based upon: (A) Existing outstanding debt; (B) previously authorized but unissued debt; and (C) projected bond authorizations;

(3) Any information available from the budget section of the department of administration in connection with anticipated capital expenditures projected for the next five fiscal years;

(4) The criteria that recognized bond rating agencies use to judge the quality of state bonds;

(5) Any other factor that the division finds as relevant to: (A) The ability of the state to meet its projected debt service requirements for the next fiscal year; (B) the ability of the state to meet its projected debt service requirement for the next five fiscal years; and (C) any other factor affecting the marketability of such bond; and

(6) The effect of authorizations of new tax-supported debt on each of the considerations of this subsection.

(c) Conduct ongoing review of the amount and condition of bonds, notes and other security obligations of the state's spending units: (1) Not secured by the full faith and credit of the state or for which the Legislature is not obligated to replenish reserve funds or make necessary debt service payments; (2) for which the state has a contingent or limited liability or for which the Legislature is permitted to replenish reserve funds or make necessary debt service payments if deficiencies occur. When appropriate, the division shall recommend limits on such additional obligations to the governor and to the Legislature. Such recommendation is advisory and shall in no way restrict the governor, the Legislature or the spending unit.

(d) The treasurer may review all proposed offerings of debt, as defined in this article, submitted to the division of debt management, as provided in section six, article six-a of this chapter. The division may also request any additional information which may be needed to issue an advisory opinion to the governor, the speaker of the House of Delegates and the president of the Senate as to the impact of the proposed offering on the state's net tax-supported debt outstanding and any other criteria which the treasurer feels may be relevant to the marketability of said offering and its impact on the state's credit rating. Such advisory opinion shall in no way restrict the governor, the Legislature or the spending unit.

(e) Do all things necessary or convenient to effectuate the intent of this article and to carry out its powers and functions.

Legislative Rule, Title 112 Series 9
RULES FOR THE REPORTING OF DEBT CAPACITY

§112-9-1. General.

1.1. Scope. — This rule implements the provisions of W. Va. Code §12-6B-1 et seq., which provides that the State Treasurer's Division of Debt Capacity is responsible for the gathering and reporting of information concerning the State's ability to meet it's debt obligations, and to incur new debt, and for conducting an ongoing review of the amount and condition of bonds, notes, and other security obligations of the State's spending units.

1.2. Authority. — W. Va. Code §12-6B-4.

1.3. Filing Date. — May 6, 1998

1.4. Effective Date. — May 7, 1998

1.5. General Purpose. — The purpose of this rule is to carry out the legislative intent, as stated in W. Va. Code §12-6B-1, to provide necessary information to the Governor and the Legislature so that they may prudently manage the state's financial resources by attempting to keep the State within an average to low range of nationally recognized debt limits.

§112-9-2. Definitions.

For the purpose of this rule, unless a different meaning is clearly required by the context:

2.1. "Capital Lease" means a lease in which the lessee assumes substantially all the risks and benefits associated with the asset and which meets one or more of the following criteria:

2.1.1. The lease transfers ownership of the leased asset at the end of the lease term;

2.1.2. The lease terms and conditions contain a bargain purchase option which allows the Lessee to buy the leased asset for substantially less than the estimated value of the leased item;

2.1.3. The term of the lease is seventy-five percent (75%) or more of the estimated economic life of the leased asset. The estimated economic life is the estimated useful life of the asset for the purpose for which it was intended, regardless of the term of the lease. For example, if a copier with an estimated economic life of ten (10) years were leased for eight (8) years, it would meet this criterion; or

2.1.4. The present value of the future minimum lease payments at the beginning of the lease equals or exceeds ninety percent (90%) of the fair value of the asset.

2.2. “Debt” means bonds, notes, Certificates of Participation, certificate transactions, Capital Leases, lease purchases, mortgages and all other forms of securities or paper evidencing amounts owed and payable on demand or specified dates, as determined by the Treasurer .

2.3. “Debt Impact Statement” means a signed statement from the Treasurer which contains the information specified in Subsection 3.2 of this Rule and may accompany, at the request of a member of the Legislature, a bill introduced to the West Virginia Legislature which authorizes the issuance of debt.

2.4. “Division” means the division of debt capacity.

2.5. “General Obligation Bonds” means debt in the form of bonds supported by a constitutional obligation of the State to make debt payments if no other source of funds is available. The creation of general obligation debt requires a constitutional amendment approved by two-thirds of both houses of the Legislature and a majority vote by the public.

2.6. “Installment Purchase” means a lease agreement in excess of one year providing for the application of rental payments to the purchase price of equipment or facilities. A spending unit’s obligation under the lease purchase agreement is made expressly subject to appropriations by the Legislature, thus creating a “moral obligation” on the part of the Legislature to appropriate necessary rent when the lease payments are due and payable.

2.7. “Mortgage” means a debt instrument for financing the purchase of real property by which the borrower gives the lender a lien on the property as security for the repayment of the loan.

2.8 “Net tax supported debt” means: (1) general obligation bonds of the state net of any refundings, defeasances, reserve requirements or sinking funds; (2) moral obligations of the state net of any refundings, defeasances, reserve requirements or sinking funds; (3) capital leases, lease purchases, mortgages, installment purchases, certificates of participation and any other debt financing transaction extending beyond one year, net of any refundings, defeasances, reserve requirements or sinking funds, which are payable through an annual appropriation of the Legislature. “Net tax supported debt” includes lottery bonds, but does not include revenue bonds or any other debt that is self-supporting from enterprise revenues: Provided, That the obligation shall not be excluded to the extent the obligations are in default;

2.9. “Other Debt” includes installment purchases as defined in subsection 2.6 of this section; mortgages as defined in subsection 2.7 of this section; and short-term debt as defined in subsection 2.10 of this section.

2.10. “Short-Term Debt” means notes which generally have a term of five years or less, including but not limited to tax anticipation notes, revenue anticipation notes, grant anticipation notes and certificates of participation.

2.11. “Moral Obligation Bond” is a bond secured by a pledge of revenue and a moral commitment of the state of West Virginia to appropriate funds to make up any deficiency of the revenues needed to pay the debt service;

2.12. “Spending unit” means any of the State’s agencies, boards, commissions, committees, authorities, entities or other units of State Government with the power to issue debt and secure debt, with the exclusion of local political subdivisions of the State.

2.13. “State” means the State of West Virginia.

2.14. “Treasurer” means the West Virginia State Treasurer.

2.15. “Revenue bonds” are bonds secured by a specified revenue stream, often with a lien imposed on the revenues. The revenue stream may be a tax or assessment or the revenues of the project financed.

2.16. “Lottery bonds” are bonds secured by lottery revenues;

2.17. “Revenues” means: (1) total funds deposited in the general revenue; plus (2) the entire related revenue stream for any net tax supported debt which is funded from a source other than the state’s general revenue fund; plus (3) an amount equal to any deductions from the gross general revenue for debt service of tax supported debt before the revenue is added to the general revenue fund.

An example of revenue as defined in this subdivision 2.17.2 of this subsection is the State Road Fund revenues. The total revenues of the State Road Fund (exclusive of Federal funds) are used to repay the Road Bonds and are therefore included in revenue.

An example of revenue as defined in subdivision 2.17.3 of this subsection is the amount of severance tax dedicated for repayment of the Infrastructure Bonds. Those dedicated severance taxes are therefore included in revenue.

§112-9-3. Debt capacity and debt impact reporting.

3.1. Annual debt capacity report - The division with the cooperation and support of the Department of Administration, the Department of Tax and Revenue and the Bureau of Employment Programs shall issue an annual report, on or before October 1st of each year. The annual debt capacity report reviews the size and condition of the state’s net tax supported debt and estimates the maximum amount of net tax supported debt which should be authorized based upon ratios and guidelines established by the major bond rating agencies. The ratios and guidelines shall be consistently applied based upon the state's definitions.

3.2. Debt impact statement - The Treasurer shall prepare a debt impact statement, only at the request of any member of the Legislature of West Virginia, which shall at a minimum include the following:

3.2.1. Current net tax supported debt;

3.2.2. Current net tax supported debt as a percentage of personal income;

3.2.3. Current net tax supported debt per capita;

3.2.4. A list of assumptions derived from the House or Senate bill for which the debt impact statement is being prepared;

3.2.5. The recommendation of the Treasurer;

3.2.6. The total debt service as a percentage of revenue;

3.2.7. Current ratios and guidelines as established and/or reported by the major rating agencies; and

3.2.8. A comparison of West Virginia's ratio to other states with similar bond ratings.

3.3. Additional Information - The division may, pursuant to W. Va. Code §12-6B-4(d), require any additional information from any spending unit to carry out the provisions as outlined in W. Va. Code §12-6B-1 et seq.

3.4. Additional Reports and Advisory Opinions - The Treasurer may, as he or she considers necessary, issue advisory letters, notices and/or opinions on new debt issuance, the condition of the State's outstanding debt and any other factor which the Treasurer determines may directly or indirectly effect the State's credit rating.

This page intentionally blank.

Appendix B

Revenue Information

This page intentionally blank.

Revenue & Revenue Projections
(thousands)
2008 - 2020 (projected)

Year	General Revenue	Road Fund	Lottery**	Severance	Total
2000	2,638,496	510,215		24,000	3,172,711
2001	2,718,379	535,346	131,900	24,000	3,409,625
2002	2,824,117	563,515	244,300	24,000	3,655,932
2003	2,916,961	544,729	268,200	24,000	3,753,890
2004	3,082,941	570,742	356,500	24,000	4,034,183
2005	3,504,830	578,050	303,709	24,000	4,410,589
2006	3,661,402	580,904	486,800	24,000	4,753,106
2007	3,752,722	611,085	510,900	24,000	4,898,707
*2008	3,819,000	664,315	441,700	24,000	4,949,015
*2009	3,902,733	638,115	407,500	24,000	4,972,348
*2010	4,029,303	632,916	412,500	24,000	5,098,719
*2011	4,162,733	635,962	416,300	24,000	5,238,995
*2012	4,268,643	633,496	443,900	24,000	5,370,039
*2013	4,451,953	630,588	416,900	24,000	5,523,441
*2014	4,585,500	630,588	416,900	24,000	5,656,988
*2015	4,723,100	630,588	416,900	24,000	5,794,588
*2016	4,864,800	630,588	416,900	24,000	5,936,288
*2017	5,010,700	630,588	416,900	24,000	6,082,188
*2018	5,161,000	630,588	416,900	24,000	6,232,488

* Estimates
** Net of Transfers to the General Revenue Fund

This page intentionally blank.